



# Report of the auditor-general to the North West provincial legislature and the council on the Kagisano-Molopo Local Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Kagisano-Molopo Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kagisano-Molopo Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unauthorised, irregular and fruitless and wasteful expenditure**

8. As disclosed in note 42 to the financial statements, unauthorised expenditure of R40 057 656 was incurred in the current year and the unauthorised expenditure in respect of prior years of R61 093 693 had not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 43 to the financial statements, fruitless and wasteful expenditure of R82 968 was incurred in the current year and fruitless and wasteful expenditure from prior years of R1 795 161 had not yet been dealt with in accordance with section 32 of the MFMA.
10. As disclosed in note 44 to the financial statements, irregular expenditure of R61 413 889 was incurred in the current year and irregular expenditure from prior years of R180 750 400 had not yet been dealt with in accordance with section 32 of the MFMA.

## **Material losses**

11. As disclosed in note 27 to the financial statements, material losses to the amount of R3 614 927 (2015: R2 016 230) were incurred as a result of significant impairment of debtors.

## **Restatement of corresponding figures**

12. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2016 in the financial statements of Kagisano-Molopo Local Municipality as at, and for the year ended, 30 June 2015.

## **Additional matters**

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited disclosure notes**

14. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Unaudited supplementary schedules**

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.



## **Report on other legal and regulatory requirements**

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas (KPA) presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - KPA 2: Basic service delivery and infrastructure development on pages x to x
  - KPA 3: Local economic development and community services on pages x to x
18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify any material findings on the usefulness and reliability of the reported performance information on any of the selected key performance areas of the municipality.

### **Additional matters**

21. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:

### **Achievement of planned targets**

22. Refer to the annual performance report on pages XX to XX and XX to XX for information on the achievement of the planned targets for the year.

### **Unaudited supplementary information**

23. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited this schedule and, accordingly, I do not report thereon.

### **Compliance with legislation**

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:



## **Budget**

25. Unforeseen and unavoidable expenditure incurred by the municipality was not approved by the mayor as required by section 29(1) of the MFMA.
26. The total unforeseen and unavoidable expenditure incurred exceeded 5% of own revenue in contravention of Municipal Budget and Reporting Regulation 72.

## **Financial statements, performance and annual reports**

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## **Procurement and contract management**

28. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulations 17(a) and (c).
29. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

## **Expenditure management**

30. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Revenue management**

31. Accounts for municipal tax and charges for municipal services were not prepared on monthly basis, as required by section 64(2)(c) of the MFMA.
32. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

## **Consequence management**

33. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
34. Irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
35. Allegations were not always investigated, as required by Disciplinary regulations for senior managers 5(3) and section 171(4) of Municipal Finance Management Act.
36. Allegations of financial misconduct laid against officials of the municipality were not investigated as required by section 171(4)(a) of the MFMA.

## **Environmental management**

37. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) by managing,



monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

38. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.

## **Internal control**

39. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## **Leadership**

40. Leadership did not ensure that all policies and procedures were implemented to enable and support the understanding and execution of internal control objectives, processes, and responsibilities. Existing internal controls, including IT systems did not allow management to ensure adequate monitoring of financial information resulting in misstatements identified in the financial statements and material deviations from legislation.

## **Financial and performance management**

41. The municipality did not implement a proper record keeping systems to ensure that complete, relevant and accurate information is accessible and available to support financial reporting and compliance with laws and regulations. Management's internal controls and processes adopted over the preparation and presentation of the financial statements were not able to ensure that the financials were free from material misstatements, as well as the municipality complying with laws and regulations.

## **Governance**

42. The audit committee and internal audit fulfilled their functions, however, management did not adequately respond to the concerns raised by the audit committee, and did not implement all the recommendations made by internal audit resulting in the internal control environment over financial and compliance with laws and regulations being ineffective.

Rustenburg

30 November 2016



*Auditing to build public confidence*

